



GIANT MASCOT MINES LIMITED

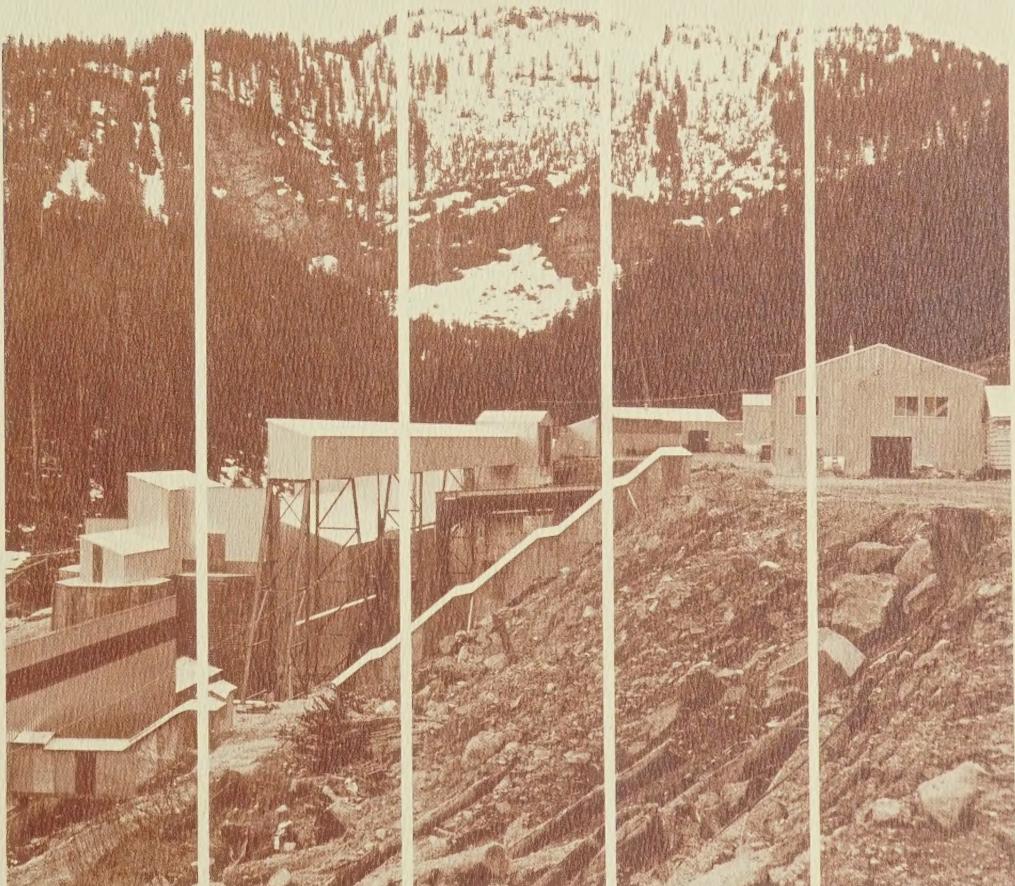
22nd Annual Report

for the year ended
September 30, 1972

and

Interim Report

for the three month period
ending December 31, 1972





FRONT COVER:

View from the west of the company's Giant Nickel Mine near Hope, British Columbia.

BACK COVER:

Panarctic's latest gas discovery (Nov. 30, 1972) on Melville Island thirty miles west of Drake Point.

OPPOSITE:

Various production stages for Giant Nickel ore include: nickel and copper froth in the flotation circuit at the mine site; pure nickel briquettes, the end product of the refining process; the Sherritt Gordon Mines refinery operation at Fort Saskatchewan, Alberta; and, the unloading of concentrate from the mine at the plant.

Photographs from:
George Allen Aerial Photos Ltd.,
Panarctic Oils Ltd. and
Sherritt Gordon Mines Limited.

GIANT MASCOT MINES LIMITED

(Incorporated under the Laws of the Province of British Columbia)

TWENTY-SECOND ANNUAL REPORT

DIRECTORS

A. H. Ainsworth, *Vancouver*
K. G. Bream, *Toronto*
R. B. Carleton, *Montreal*

N. Gesser, *Montreal*
J. L. Gibson, *Vancouver*
W. C. Gibson, *Vancouver*

H. A. McDiarmid, *Vancouver*
J. J. McNally, *New York*
L. P. Starck, *Vancouver*

OFFICERS

W. C. Gibson, *Chairman of the Board*
L. P. Starck, *President and Managing Director*
R. B. Carleton, *Vice-President*
A. H. Ainsworth, *Secretary and General Counsel*

REGISTERED OFFICE

Suite 2260, Toronto-Dominion Bank Tower,
Pacific Centre, 700 West Georgia Street, Vancouver 1

ADMINISTRATIVE OFFICE

Suite 2410, Toronto-Dominion Bank Tower,
Pacific Centre, 700 West Georgia Street, Vancouver 1

REGISTRAR AND TRANSFER AGENTS

Canada Permanent Trust Company,
Calgary, Montreal, Toronto, Vancouver

SOLICITORS

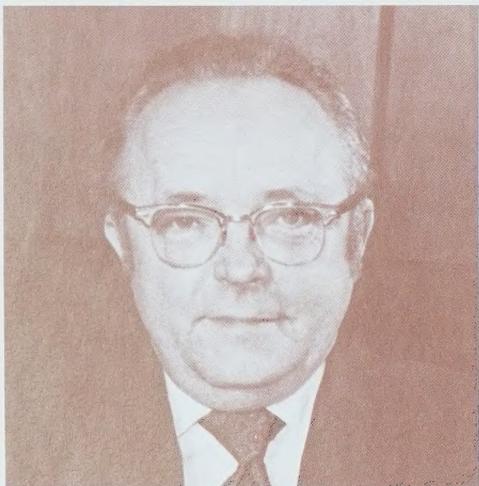
Ainsworth & Company, Vancouver

AUDITORS

Price Waterhouse & Co., Vancouver

Listed on the Toronto and Vancouver Stock Exchanges

Report of the President and Directors to the Shareholders



The year 1972 was difficult on the mining industry in Canada due to the worldwide recession in metal markets, coupled with uncertainties in federal tax legislation.

A more positive assessment of the prospects for Giant Mascot Mines Limited in the current year appears justified with some increases in metal prices, the prospects for Panarctic Oils Ltd., in which the Company holds a 4.48% interest, and the fact that firm concentrate sales contracts and a new labour agreement have been concluded. Based on these factors and the existence of an organization capable of taking advantage of opportunities as they arise, the Company is optimistic about its long term growth.

With a view to expanding and developing the Company's activities, a wide variety of ventures for possible acquisition and participation have been investigated, primarily in the natural resource and related industries, and the Company is continuing this policy.

We are sorry to say that Mr. W. Clarke Gibson, the Chairman of the Board, has decided to retire and will not be standing for re-election as a Director at the forthcoming Annual General Meeting. His retirement from active participation in the Company's affairs is well earned, but his contribution will certainly be missed. First appointed as a Director in 1954, Clarke, as he is known by one and all, served as President and Managing Director for twelve years and as Chairman of the Board for the last four years.

At the last meeting of the Board of Directors, Mr. John J. McNally, partner of the law firm of White & Case, the Company's New York counsel, was appointed a Director of the Company to expand the Board, as approved at the last Annual General Meeting of shareholders.

FINANCIAL HIGHLIGHTS

Early in 1972 the Company received full settlement from its own insurers of some \$5,000,000 in insurance proceeds in respect of physical damage, business interruption and sundry losses resulting from the fire at the Giant Nickel Mine on August 2nd, 1970. The insurers, however, insisted that these proceeds be allocated in the ratio of 60% to physical losses and 40% to business interruption loss. This allocation necessitated a restatement of the extraordinary insurance item and related tax reserves as previously reported in 1971. On receipt of the insurance proceeds the Company's bank loan for reconstruction purposes was retired.

Operating earnings for 1972 showed an improvement over those for the previous year. However, they are not comparative with 1971 when the Giant Nickel Mine was in production for only five months. The performance in 1972 was not as expected due to several factors, including the difficulty of maintaining continuous production in the early part of the year as a result of the heaviest snowfall in the past twelve years, which exceeded 55 feet, as well as the grade of ore treated and the lower prices realized for copper. The report for the first quarter of the fiscal year 1973 is included at the end of this annual report. There has been an increase in operating costs for the three months ended December 31, 1972 as compared with the same period in 1971. This was due in part to the fact that during the 1972 period there was increased emphasis on the development and preparation of new areas for extraction with resultant increases in mining costs. A general increase in labour and supply costs was also a factor.

Subsequent to the year end the Company made an application, which is presently pending, to the

Securities and Exchange Commission in Washington, D.C., for registration under the "Securities and Exchange Act of 1933" in connection with a proposed underwriting of up to one million treasury shares for distribution to residents of the United States. If such registration is effected, the Company intends to use the proceeds of the underwriting to maintain its position in Panarctic Oils Ltd., to undertake a major exploration program at the Giant Nickel Mine and limited programs at Giant Copper and Nickel Plate, and to continue its participation in the Nickel Syndicate. The issuance of such shares is subject to the acceptance of the proposed transaction by the Toronto and Vancouver Stock Exchanges. The Company is authorized to issue 15,000,000 shares, of which 8,693,728 are issued and held by 3,368 shareholders.

The Company has increased its participation in Giant Explorations Limited (N.P.L.) to some 27.87% by purchasing 200,000 treasury shares at 40 cents per share.

METAL MARKETS

The markets for most metals began to show some improvement in 1972 although supply exceeded demand due to the accumulation during the pause in metal consumption which began in 1970 as a result of the general lack of business confidence, the lower rate of capital expenditures and the devaluation of various currencies.

World consumption of nickel was higher in 1972 than in 1971, but was well below the record in 1970. Inventories in 1972 continued to be high, as a result of the prior increase in production, spurred by the critical shortage which had existed up to the end of 1970. It is

believed this recovery will be maintained, and consumption is expected to grow at the historical average rate of some 6.5% per annum, and may accelerate as a result of an expansion in uses which adequate supplies could well permit.

The Inco price for electrolytic nickel was increased in September 1972 to \$1.53 U.S. per pound, which was the first such increase since October 1970, when the price was raised from \$1.28 U.S. to \$1.33 U.S. The average price increase in nickel has been some 5% per annum since 1952 and 10% annually since 1966. There is a trend, however, to use more of the lower priced nickel products, such as sinter and ferronickel, and therefore the price increase pattern, for electrolytic nickel, might not be as rapid in the future.

The price of copper on the London Metal Exchange reached 53 cents per pound in mid-March 1972. Thereafter it declined steadily to 46 cents in July, recovered to about 50 cents in September and then slipped to 45 cents in December. This downward trend, however, reversed in early 1973 with an increase to 53 cents. It seems only moderately optimistic to predict that, save for minor setbacks, the price of copper will hold its recent gains.

PRODUCT SALES

After making an extensive study of the immediate and future markets for its nickel and copper, the Company has concluded a five year contract with Sherritt Gordon Mines Limited for the sale of up to 2,000 tons of nickel concentrate per month, commencing March 1st, 1973, based on prices realized by Sherritt. A two year agreement has also been negotiated with the Sumitomo Group for the sale of up to 500 tons per month of

copper concentrate. These new sales agreements will replace the current contract with the Sumitomo Group for bulk nickel-copper concentrates, expiring February 28th, 1973, which Sumitomo elected not to renew in the face of the over-supply of nickel to the Group from other sources and the slowdown in Japan's nickel requirements generally.

The terms of the new Sherritt and Sumitomo agreements for separate nickel and copper concentrates are substantially less favourable to the Company than the terms of the current Sumitomo contract for bulk nickel-copper concentrate. On the other hand, the Company expects some offsetting effect from the recent improvement in nickel and copper prices if such prices hold reasonably firm.

GIANT NICKEL MINE

Ore reserves as of October 1st, 1972 were 1,706,495 tons proven, probable and broken, grading 0.68% nickel and 0.36% copper.

At the beginning of 1972 the Company took advantage of the higher than normal ore reserves then on hand to defer exploration for immediate ore reserves in order to concentrate on a program of geological reconnaissance by way of diamond drilling beyond the immediate environs of the known orebodies. This work indicated areas of major geologic interest with ore-making potential. The reconnaissance was undertaken as a preliminary to carrying out the detailed assessment of the overall potential of the Giant Nickel Mine, to which a substantial portion of the proceeds of the proposed underwriting would be applied. To date, only some one-third of the 5,000 acres of ultrabasic mass which hosts the mine has been tested above

the 2600 foot horizon, and only a minimal amount of exploration has been carried out below that level.

The upper sections of the Climax and Chinaman ore zones above the 3050 Level are in production and stope outline drilling and development of these zones between the 3050 Level and the 2600 Level are now in progress. Exploration diamond drilling is being directed to the replacement and expansion of immediate ore reserves.

The rate of treatment through the Giant Nickel Mine concentrator has been gradually increased from the pre-fire rate of some 1,500 tons per day to the current 1,875 tons. A continuing program of metallurgical research is being carried on by the staff, assisted by outside consultants, to improve recoveries and to develop techniques for the production of a differential nickel and copper concentrate. The modification of the flotation plant to produce separate nickel and copper concentrates has been completed and construction is underway to adapt the dewatering and concentrate handling facilities for the two products. The total cost to be incurred in this connection is estimated at some \$250,000.

An extension to June 30th, 1974 of the collective bargaining agreement with the United Steelworkers of America has been signed. The Company staff and hourly rated employees total 194.

EXPLORATION

At the Giant Copper property, Allison Pass, B.C., the Company undertook further geological, geophysical and geochemical surveys and trenching on mineralization at the south end of the main A.M. Breccia zone near 7 Level, and over the geochemical and geophysical anomalies on the 26 Mile and 10 Level Grids, 2,500 feet to the

north and south of the Breccia zone. This work was supplemented by surface diamond drilling in the areas of 7 Level and the 10 Level Grid.

No work was carried out on the Mascot Nickel Plate gold-copper prospect. In view of the improved price of gold, however, geological and engineering information on that property has been reviewed and several exploration targets have been developed.

The participation with Giant Explorations Limited (N.P.L.) in the exploration of the 530 claim Nickel Syndicate property, located between the Giant Nickel Mine and Harrison Lake, was continued. Detailed examination of two of the seven main areas of interest, by geological mapping, geophysical surveying and diamond drilling, constituted the major portion of the 1972 program. Several geologically interesting sectors of low grade mineralization have been found, but no discoveries of economic significance have yet been made. Additional information, which will be of value in planning further exploration, was obtained in reconnaissance geological and geochemical surveys over the ground adjacent to the five other areas of interest in which detailed exploration work had been done in 1971.

PANARCTIC

The search for oil and natural gas in the Canadian Arctic Islands north of the 71st parallel is expected to be even more intensive in 1973 and ensuing years than in the past, in response to the growing deficiency in hydrocarbon and other energy resources in North America.

Significant gas discoveries in four separate areas which indicate potential gas fields have been made by Panarctic, the latest being the Hecla discovery on the Sabine Peninsula on Melville

Island. Crude oil was disclosed in drill stem tests by Panarctic in two strata of the Romulus well on the Fosheim Peninsula on Ellesmere Island and in the Thor Island well near Ellef Ringnes Island. Although neither of these discoveries can be considered economic, it is significant that they are the first reported discoveries of oil in drill holes in the Canadian Arctic Islands.

Panarctic, which is 45% owned by the Canadian federal government, and the balance by 19 other participants, holds interests ranging from 16% to 100% in land holdings of approximately 60,100,000 acres.

As of September 30th, 1972 these lands were made up of 9,600,000 gross acres which Panarctic holds directly under permit and some 50,500,000 gross acres subject to some 39 "farm-in" agreements, which entitled Panarctic to earn 36,400,000 net acres, of which 32,800,000 are already earned. Panarctic has applied for leases on certain of these permit lands in areas of gas discoveries.

Up to October 31st, 1972, 43 wells had been drilled on Panarctic lands, of which 32 were drilled by Panarctic and the remainder by others under "farm-outs" from Panarctic. Of these wells, four resulted in the discovery of potential gas fields and three were extension wells. This discovery ratio of 1 to 10.7 in a virgin area must be considered a successful one. At present there are six drilling rigs operating on Panarctic lands.

The initial gas discovery by Panarctic was made at Drake Point on Melville Island in 1969. This potential field has since been expanded by the discovery in 1972 of gas at two locations some five miles and twelve miles southeasterly of the initial discovery. The second area in which gas has been discovered is on the eastern

side of King Christian Island where the discovery well drilled in 1970 was abandoned after a blowout. In 1971 a gas well was drilled at that site and later in the year gas was encountered in the same formation by a further well some two miles to the southeast. The third area of gas discovery is at Kristoffer Bay on Ellef Ringnes Island, where a gas well was drilled in 1971. The fourth area is on the Sabine Peninsula on Melville Island, where gas was encountered in the Hecla well in November 1972. This new discovery is some thirty miles west of the original Drake Point discovery and, although in the same formation, is regarded by Panarctic as having tapped a separate reservoir.

In January, 1973, Dome Petroleum Ltd. made a discovery of gas on the northwest side of King Christian Island. Although Panarctic has no interest in it, this discovery should add to the gas reserves in the Canadian Arctic Islands and therefore it might well accelerate establishment of the threshold gas reserves necessary to support a pipe line from the Arctic.

Of the total exploration commitment by the Panarctic participants of some \$101,000,000, approximately \$59,000,000 had been expended by October 31st, 1972. In addition, from \$50,000,000 to \$75,000,000 of additional work is being, or will be, carried out on Panarctic lands by the seven companies to whom Panarctic has granted "farm-outs". Under a separate agreement with a partnership of four gas transmission companies and Panarctic, a further \$75 million has been committed for drilling operations over five years. After 1976 this agreement may be extended annually for a further five years to spend \$15 million for each year of the extension.

In 1973 Panarctic has entered into two important agreements which will expand its activities in the Arctic. The "Polar Gas Project" undertaken by Panarctic, Trans-Canada Pipe Lines Ltd., Canadian Pacific Investments Limited and Tenneco Oil and Minerals, Ltd., will consist of research, investigations and planning for a possible natural gas pipe line to eastern Canada from the Canadian Arctic Islands. Preliminary reconnaissance was carried out in 1972 under the direction of Panarctic, of two routes, one passing to the west side of Hudson Bay and the other passing to the east side. The other new project undertaken by Panarctic is its participation with Tenneco Oil and Minerals, Ltd., Columbia Gas Development of Canada Ltd., Norlands Petroleum Limited and Texas Eastern Exploration of Canada Ltd. in a Group who have formed a partnership known as Elfex and Co., with Elf Oil and Exploration and Production of Canada Ltd. Elf will contribute to the partnership some 11.8 million acres in the Western Arctic on Banks, Prince Patrick and Borden Islands and offshore from them. Commencing January 1, 1973, the Group will contribute, for exploration of the Elfex and Co. partnership land and any other lands which may subsequently be acquired, up to 40 million dollars in a first period and three subsequent optional periods of approximately two years each, the last ending on December 31, 1979. For this contribution the Group will receive up to a 32½ percent interest in the partnership, and the gas companies involved will have the priority to negotiate the purchase of any gas developed by the partnership. Under the terms of the partnership the Group, upon the request of Elf, will provide up to 20 million dollars for drilling delineation gas wells and up to 75 million dollars for drilling development gas wells.

Panarctic has recently subdivided its common shares on a twenty for one basis and the outstanding preferred shares have been converted into common shares on a one for one basis. In addition, the participants have entered into a fourth expansion agreement for further exploration expenditures of \$25,000,000, of which Giant Mascot's share will be \$1,129,360.

As a result of the capital re-organization of Panarctic, the interests of all the participants were adjusted and the Company now holds a 4.48% interest, represented by 1,585,622 common shares, including those issued pursuant to the fourth expansion agreement.

THE FUTURE

The assured continuation of markets for the Giant Nickel Mine production, a general improvement in metal prices and the prospects for an underwriting and the major exploration program to be carried out with the proceeds, as well as the closing of the gap between Panarctic's gas discoveries and the reserves required to justify marketing facilities, are factors which can contribute to Giant Mascot's future growth.

On Behalf of the Board



President and Managing Director

Vancouver B.C.
February 8 1973

Giant Mascot Mines Limited

Operating Data

Five Year Review

	1972	1971	1970	1969	1968
Tons of Ore	386,205	157,175	301,693	316,749	338,340
Grade of Ore:					
Average % Nickel	0.68	0.74	0.83	0.72	0.67
Average % Copper	0.38	0.40	0.43	0.34	0.23
Concentrates:					
Tons Produced	20,427	9,217	20,595	17,527	18,227
Pounds of Contained Nickel	3,964,543	1,861,492	4,037,291	3,496,000	3,769,519
Pounds of Contained Copper	2,686,608	1,155,859	2,277,994	1,930,339	1,417,703
Raising (feet)	4,112	1,309	3,908	4,962	3,676
Drifting (feet)	3,233	5,028	3,596	3,451	3,422
Percussion Longhole Drilling (feet)	138,870	117,470	215,282	191,990	167,283
Diamond Drilling (feet)	46,990	59,789	70,120	55,077	48,965

Giant Mascot Mines Limited

Financial Data

Five Year Review

	1972	1971	1970	1969	1968
Net Value per Ton of Ore	\$ 12.50	\$ 13.55	\$17.15	\$10.95	\$ 9.09
Total Production Costs per Ton of Ore (excluding taxes):					
Mine Exploration and Development	\$ 1.50	\$ 1.39	\$ 2.03	\$ 2.12	\$ 1.63
Mining	3.06	2.72	2.66	2.82	2.78
Concentrating	1.53	1.19	1.51	1.48	1.27
Mine Administration	.56	.42	.38	.30	.32
Depreciation, Depletion and Amortization	1.98	2.01	1.12	.86	.57
Total	\$ 8.63	\$ 7.73	\$ 7.70	\$ 7.58	\$ 6.57
Gross Profit per Ton of Ore	\$ 3.87	\$ 5.82	\$ 9.45	\$ 3.37	\$ 2.52
Average Common Shares outstanding	8,693,728	8,693,728	5,726,605	4,684,698	4,671,394
Earnings per Common Share:					
Income before extraordinary items	\$.08	\$.06	\$.27	\$.12	\$.09
Extraordinary items		.35			
Net income	\$.08	\$.41	\$.27	\$.12	\$.09

Giant Mascot Mines Limited

Consolidated Balance Sheet

as at September 30, 1972

ASSETS

Current assets:

	1972	1971
Cash and short-term deposits	\$ 415,252	\$ 200,937
Receivables —		
Concentrate settlements	848,405	843,799
Other	7,944	39,119
Income taxes recoverable	—	564,842
Insurance recovery [Note 2]	—	5,000,000
Concentrate inventories, at estimated net realizable value [Note 3]	734,487	276,869
Supplies, at cost	171,564	121,485
Prepaid expenses	291,903	91,757
Total current assets	<u>2,469,555</u>	<u>7,138,808</u>

Investment in and advances to affiliated company

Giant Explorations Limited (N.P.L.) [Note 4]:

Investment	188,454	131,360
Advances	(4,344)	40,585
	<u>184,110</u>	<u>171,945</u>

Mining properties and petroleum and natural gas
holdings [Note 5]

Interest in Panarctic Oils Ltd. [Note 6]

	<u>\$ 27,302,646</u>	<u>\$ 31,604,367</u>
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LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Bank loan (secured by the insurance recovery
and the receivables)

Accounts payable

Accrued liabilities

Current portion of liability relating to the
acquisition of shares of Panarctic Oils Ltd.

[Note 6]

Total current liabilities

Non-current portion of liability relating to the
acquisition of shares of Panarctic Oils Ltd.

[Note 6]

Deferred income and mining taxes [Note 7]

Minority interest in subsidiary [Note 1]

Shareholders' equity:

Capital stock —

Authorized [Note 8]:

15,000,000 common shares of no par value

Issued:

8,693,728 common shares

Contributed surplus [Note 4]

Retained earnings

Commitments [Note 9]

	1972	1971
Current liabilities:		
Bank loan (secured by the insurance recovery and the receivables)	\$ —	\$ 5,000,000
Accounts payable	303,342	273,089
Accrued liabilities	330,580	269,710
Current portion of liability relating to the acquisition of shares of Panarctic Oils Ltd. [Note 6]	<u>504,357</u>	<u>602,384</u>
Total current liabilities	<u>1,138,279</u>	<u>6,145,183</u>
Non-current portion of liability relating to the acquisition of shares of Panarctic Oils Ltd. [Note 6]	—	404,025
Deferred income and mining taxes [Note 7]	<u>3,261,500</u>	<u>2,940,500</u>
Minority interest in subsidiary [Note 1]	<u>4,399,779</u>	<u>9,489,708</u>
Shareholders' equity:		
Capital stock —		
Authorized [Note 8]:		
15,000,000 common shares of no par value		
Issued:		
8,693,728 common shares	16,273,848	16,273,848
Contributed surplus [Note 4]	237,494	226,205
Retained earnings	<u>6,318,905</u>	<u>5,614,606</u>
Commitments [Note 9]	<u>22,830,247</u>	<u>22,114,659</u>
	<u>\$ 27,302,646</u>	<u>\$ 31,604,367</u>

APPROVED
ON BEHALF OF THE BOARD:

Director

Director

Giant Mascot Mines Limited

Consolidated

Statement of Income

for the year ended
September 30, 1972

	1972	1971
Value of mineral production [Note 3]	\$ 4,828,738	\$ 2,129,380
Cost of production:		
Mining	1,182,915	427,770
Concentrating	590,943	186,509
Mine exploration and development	578,845	218,622
Mine administration	215,308	66,459
Depreciation, depletion and amortization	766,645	315,891
	3,334,656	1,215,251
Gross profit	1,494,082	914,129
General and administrative expenses [Note 10]	284,965	239,330
Other general expenses:		
Investigation of exploration prospects	42,832	11,070
Interest expense	127,523	116,581
Loss arising on disposal of building at Giant Copper property	13,456	—
	468,776	366,981
	1,025,306	547,148
Other income:		
Interest income	33,019	142,245
Gain on sale of government bonds	—	45,000
Miscellaneous	1,169	14,964
	34,188	202,209
Income before income and mining taxes, equity in expired costs of affiliate, and extraordinary items	1,059,494	749,357
Income and mining taxes:		
Current (recoverable)	—	(599,931)
Deferred [Note 7]	321,000	830,500
	321,000	230,569
Income before equity in expired costs of affiliate and extraordinary items	738,494	518,788
Equity in expired costs of affiliate [Note 4]	34,195	6,261
Income before extraordinary items	704,299	512,527
Extraordinary items:		
Excess of insurance proceeds arising from fire (net of \$1,117,000 deferred income taxes) [Note 2]	—	3,173,350
Loss arising on abandonment of buildings at Giant Soo Property (net of \$47,000 deferred income taxes)	—	(79,668)
	—	3,093,682
Net income	\$ 704,299	\$ 3,606,209
Earnings per common share:		
Income before extraordinary items	\$.08	\$.06
Extraordinary items	—	.35
Net income	\$.08	\$.41

Giant Mascot Mines Limited

Consolidated Statement of Retained Earnings

for the year ended September 30, 1972

	1972	1971
Retained earnings, beginning of year:		
As previously reported	\$ 6,566,851	\$ 4,199,200
Less adjustment of prior years—		
Equity in expired costs of affiliate [Note 4]	156,245	149,984
Deferred income taxes [Note 2]	796,000	—
	<hr/> 952,245	<hr/> 149,984
As restated	5,614,606	4,049,216
Less: Capital deficit	—	2,040,819
	<hr/> 5,614,606	<hr/> 2,008,397
Net income for the year	704,299	3,606,209
Retained earnings, end of year	<hr/> \$ 6,318,905	<hr/> \$ 5,614,606

Consolidated Statement of Changes**in Financial Position**

for the year ended September 30, 1972

	1972	1971
Financial resources were provided by:		
Net income for the year before extraordinary item	\$ 704,299	\$ 512,527
Add: Income charges not affecting working capital in the year		
Depreciation, depletion and amortization	766,645	315,891
Deferred income and mining taxes	321,000	830,500
Equity in expired costs of affiliate [Note 4]	34,195	6,261
Loss arising on disposal of building at Giant Copper property	13,456	—
	1,839,595	1,665,179
Working capital provided by extraordinary item:		
Excess of insurance proceeds arising from fire, including deferred income taxes of \$1,117,000 [Note 2]	—	4,290,350
Indebtedness incurred relative to commitment to acquire shares of Panarctic Oils Ltd. [Note 6]	—	404,025
Investment in affiliate [Note 4]	45,484	30,722
Minority interest in subsidiary at acquisition [Note 1]	72,620	—
	1,957,699	6,390,276
Financial resources were used for:		
Interest in Panarctic Oils Ltd.	9,760	1,180,801
Reduction in indebtedness relative to commitment to acquire share of Panarctic Oils Ltd. [Note 6]	404,025	—
Additions to mineral claims, buildings and equipment, net	657,058	6,328,463
Deferred exploration, development and other expenditures	468,650	1,324,512
Investment in affiliate [Note 4]	125,484	30,722
Increase (decrease) in advances to affiliate	(44,929)	2,280
	1,620,048	8,866,778
Increase (decrease) in working capital	337,651	(2,476,502)
Working capital, beginning of year	993,625	3,470,127
Working capital, end of year	\$ 1,331,276	\$ 993,625

Giant Mascot Mines Limited

Notes to Consolidated Financial Statements

September 30, 1972

1. Principles of consolidation:

The consolidated financial statements include the accounts of the company and all of its subsidiaries, namely: Eagle Ridge Petroleum Ltd., G.M. Explorations Limited (N.P.L.), Mascot Copper Mines Limited (N.P.L.), Mascot Nickel Plate Mines Limited and Giant Soo Mines Limited (N.P.L.). The latter, having disposed of its assets to the parent company is presently being wound-up voluntarily. Mascot Nickel Plate Mines Limited, in which the company holds a 75.47% interest, was incorporated during the year.

2. Insurance recovery:

Operations at the Giant Nickel Mine were suspended on August 2, 1970 due to a fire which destroyed the concentrator and most of the surface facilities. Production resumed after construction on May 14, 1971 and, accordingly, the consolidated statement of income for the fiscal year ended September 30, 1971 reflects the value of mineral production and related costs for four and one-half months.

The company's insurance policies in effect at the time of the fire, provided an aggregate coverage of some \$5,000,000 combining physical loss on a replacement cost basis, business interruption loss and sundry losses. During the fiscal year ended September 30, 1971, the company recorded as an extraordinary item, \$3,969,350 being the excess of estimated insurance proceeds over the net book value

of assets destroyed (net of \$321,000 deferred income taxes). This assumed the total proceeds would be allocated to the physical loss.

During the year ended September 30, 1972 the company settled with its insurers who insisted the total proceeds of \$5,000,000 be allocated in the ratio of 60% to physical loss and 40% to business interruption losses. As a result of this final settlement of the insurance claims, the extraordinary item of \$3,969,350 as recorded in the year ended September 30, 1971 has been reduced retroactively by \$796,000, representing the amount of additional deferred income and mining taxes which would be attributable to the portion of the insurance proceeds allocated to business interruption losses.

3. Inventories:

The company operated under a firm sales contract which covered all mineral production for the year ended September 30, 1972. Therefore, mineral production is valued at estimated net realizable value and revenues have been recorded as concentrate was produced. This contract expires on February 28, 1973. On November 1, 1972, the company entered into a new sales contract with Sherritt Gordon Mines Limited for its nickel concentrate during the period March 1, 1973 to February 28, 1978.

Further, the company has negotiated an agreement with Sumitomo Shoji Canada Ltd.

for the sale of its copper concentrate after March 1, 1973.

4. Change in accounting principle:

During the year, the company changed from the cost to the equity method of accounting for its 28% investment in Giant Explorations Limited (N.P.L.). Therefore, the company's equity in the accumulated deficit resulting from the write-off of costs related to exploration and mineral claims ("expired costs") of Giant Explorations Limited (N.P.L.) has been restated in prior years. The company's share in the expired costs for the year ended September 30, 1972 has been determined on the basis of unaudited financial statements of the affiliate as at September 30, 1972 and for the prior year, on the basis of audited financial statements as of November 30, 1971. The effect of the change has been to decrease earnings per common share by \$.01 or less in each year.

The company recorded as contributed surplus its equity in the increased share capital of the affiliate derived from capital stock issuances to underwriters at prevailing prices. The difference as of September 30, 1972 between the carrying amount of the investment accounted for under the equity method and the underlying equity in net assets, in the amount of \$29,918 has been allocated to mineral claims and exploration and development expenditures thereon.

Notes to Consolidated Financial Statements (continued)

5. Mining properties and petroleum and natural gas holdings:

Mining properties:

Giant Nickel Mine:

Mineral claims, at cost less accumulated depletion of \$34,473 (1971 - \$22,782)
 Buildings and equipment, at cost less accumulated depreciation of \$1,757,062 (1971 - \$1,232,876)
 Deferred mine development costs less accumulated amortization of \$345,937 (1971 - \$119,298)

Giant Copper property:

Mineral claims, at cost*
 Buildings and equipment, at cost*
 *(including \$1,084,997 ascribed to 1,084,997 shares issued therefor)
 Deferred exploration and development expenditures

Giant Soo property:

Mineral claims, at cost
 Deferred exploration and development expenditures

Mascot Nickel Plate property:

Mineral claims, at cost
 Deferred exploration and development expenditures

Nickel Syndicate property, (50% interest):

Mineral claims and options, at cost
 Deferred exploration and development expenditures

Interest in petroleum and natural gas holdings:

Pembina Cardium Unit No. 8, at cost

	September 30 1972	September 30 1971
Mineral claims, at cost	\$ 257,816	\$ 268,816
Buildings and equipment	<u>7,352,269</u>	7,307,885
Deferred mine development costs	<u>1,920,453</u>	1,778,455
Interest in petroleum and natural gas holdings	<u>\$ 9,530,538</u>	9,355,156
	1,011,008	1,007,638
	<u>357,402</u>	370,858
	<u>1,050,906</u>	1,016,633
	<u>2,419,316</u>	2,395,129
	21,202	21,202
	<u>51,261</u>	50,704
	<u>72,463</u>	71,906
	78,161	5,541
	<u>224,143</u>	217,863
	<u>302,304</u>	223,404
	21,002	13,324
	<u>185,633</u>	126,730
	<u>206,635</u>	140,054
	11,200	11,200
	<u>\$ 12,542,456</u>	<u>\$ 12,196,849</u>

The amounts shown for mining properties, petroleum and natural gas holdings are not intended to reflect present or future values.

The company provides depreciation on buildings and machinery at the Giant Nickel Mine on a straight-line basis at the rate of 5% annually for buildings and other surface assets and 10% annually on underground machinery and facilities. Mobile equipment is depreciated on the declining balance method at a rate of 30% per year.

The costs of mineral claims at the Giant Nickel Mine are being amortized against earnings over a 25 year period.

Mine development costs, which contribute significantly to the life of the Giant Nickel Mine, are deferred as incurred and amortized on a straight-line basis at the rate of 10% annually.

6. Interest in Panarctic Oils Ltd.:

Under an agreement dated May 4, 1971, the company acquired, in order to maintain its 4.517% interest, additional preferred shares of Panarctic Oils Ltd. at a cost of \$1,174,000. The company expects to be called upon to pay the balance of this obligation within the fiscal year ended September 30, 1973.

Subsequent to September 30, 1972;

(a) the company has entered into an agreement for the acquisition of 112,936 common shares of Panarctic Oils Ltd. at a cost of \$1,129,360 which the company may be called upon to pay by December 31, 1973; and

(b) the capital structure of Panarctic Oils Ltd. has been reorganized by the subdivision of its common shares on a 1 for 20 basis and the subsequent conversion of its preferred shares into common shares on a 1 for 1 basis.

The issuance of additional common shares of Panarctic Oils Ltd. to the company and other shareholders of Panarctic Oils Ltd. pursuant to such agreement and the reorganization of the capital structure of Panarctic Oils Ltd. has reduced the company's interest therein to 4.484%.

7. Deferred income and mining taxes:

Provision is made for deferred income and mining taxes arising from principally

depreciation and exploration and development expenditures claimed for income and mining tax purposes in excess of the amounts charged against earnings in the accounts.

8. Capital stock:

The authorized share capital was increased to 15,000,000 common shares by resolution of the shareholders on March 8, 1972.

9. Commitments:

The company is committed under a lease agreement commencing June 1, 1972 to pay annually \$35,888 as a rental for its head office premises for five years.

10. Remuneration of directors and senior officers:

Total direct aggregate remuneration paid by the company to its directors and senior officers (including not only officers as such, but also, by definition, certain management personnel) was \$149,558 (1971 - \$142,480).

11. Restatement of comparative figures:

Figures for 1971 have been restated where necessary to conform with the presentation adopted for 1972.

AUDITORS' REPORT

To the Shareholders of
Giant Mascot Mines Limited:

We have examined the consolidated balance sheet of Giant Mascot Mines Limited and its subsidiaries as at September 30, 1972 and the consolidated statement of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1972 and the results of their operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retrospective effect to the change, which we approve, in accounting for the investment in Giant Explorations Limited (N.P.L.) referred to in Note 4 to the financial statements, on a basis consistent with that of the preceding year.

Pine Wattalone & Co.
Chartered Accountants

Vancouver, B.C.,
January 19, 1973

Giant Mascot Mines Limited

Three Month Interim Report — 1973 Fiscal Period

For the three month period ended December 31, 1972 with comparative figures for 1971

	December 31		December 31	
	1972	1971	1972	1971
Consolidated Statement of Changes in Financial Position			Consolidated Statement of Income	
Financial resources were provided by:			Dry tons ore milled	106,755
Net income for the period	\$ 137,826	\$ 281,443	Value of mineral production	\$ 1,366,954
Add: Income charges not affecting working capital in the period			Cost of production:	
Depreciation, depletion and amortization	222,000	204,000	Mining	395,529
Deferred income and mining taxes	95,500	200,000	Concentrating	175,305
	455,326	685,443	Mine exploration and development	220,632
Indebtedness incurred relative to commitment to acquire shares of Panarctic Oils Ltd.	376,453	—	Mine administration	53,280
	831,779	685,443	Depreciation, depletion and amortization	222,000
Financial resources were used for:			Gross profit	1,066,746
Interest in Panarctic Oils Ltd.	1,131,168	—	General and administrative expenses	300,208
Additions to mineral claims, buildings and equipment, net	91,220	136,401	Other general expenses:	69,542
Deferred exploration, development and other expenditures	101,137	137,941	Investigation of exploration prospects	3,555
Increase in advances to affiliate	8,546	13,350	Interest expense	—
	1,332,071	287,692	Other income:	
Increase (decrease) in working capital	(500,292)	397,751	Interest income	5,637
Working capital, beginning of period	1,331,276	993,625	Miscellaneous	578
Working capital, end of period	\$ 830,984	\$ 1,391,376	Income before income and mining taxes	233,326
			Income and mining taxes:	
			Deferred	95,500
			Net income for the period	\$ 137,826
				\$ 281,443

The above figures are subject to audit and year end adjustments.

PANARCTIC OILS LTD.



PANARCTIC HOLDINGS

OIL INDICATION



GAS DISCOVERY

1972 AREAS OF EXPLORATION ACTIVITY
BY PANARCTIC AND OTHERS THROUGH
FARM OUT AGREEMENTS



Area covered by accompanying map.

ARCTIC OCEAN

BORDEN I.

MEIGHEN
ISLAND

AXEL HEIBERG ISLAND

ELLESMERE ISLAND

ELLEF RINGNES
ISLAND

MUNO RINGNES
ISLAND

MCKENZIE
KING
ISLAND

LOUGHEED
ISLAND

CORNWALL

PRINCE PATRICK
ISLAND

ESTERAD

EGLINTON I.

LITTLE
JORNVAULIS

DEVON ISLAND

MELVILLE ISLAND

BATHURST
ISLAND

CORNWALLIS ISLAND

BYAM MARTIN
ISLAND

LOWTHER I.

GRIFFIN

Baffin

BANKS ISLAND

STEFANSON
ISLAND

BRODEUR
PENINSULA
(N.W. Part
of
Baffin
Island)

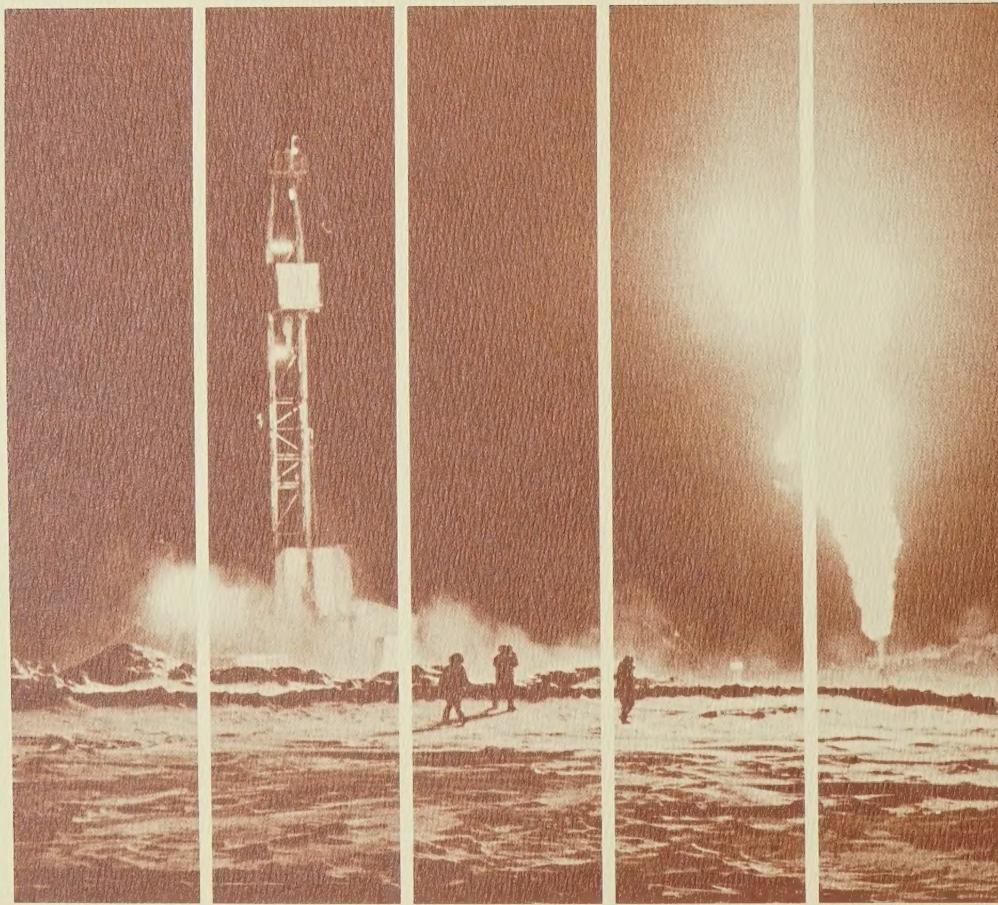
VICTORIA ISLAND

PRINCE OF
WALES
ISLAND

SOMERSET
ISLAND

Viscount Melville Sound

McClure Strait



Lithographed in Canada